

Message Text

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C O N F I D E N T I A L STATE 169975

E.O. 11652: GDS

TAGS: MASS, CM

SUBJECT: FMS POLICY

FOLLOWING 76 STATE 308154 BEING REPEATED YOUR POST

SUMMARY: THE PURPOSES OF THIS MESSAGE ARE: A) TO RESTATE
CURRENT POLICY OF LIMITING THE USE OF FMS CREDITS AND
GUARANTIES TO FINANCE PROCUREMENT OF MAJOR END ITEMS AND
RELATED MILITARY INVESTMENT PURPOSES; B) TO RECOGNIZE THAT
SPECIAL CIRCUMSTANCES IN PARTICULAR COUNTRIES MIGHT, AT
PARTICULAR TIMES, WARRANT EXCEPTIONS TO THAT BASIC POLICY;
AND C) TO REQUEST ADDRESSEES TO ENSURE:
1) THAT HOST GOVERNMENTS UNDERSTAND BASIC POLICY;
2) THAT REQUESTS FOR EXCEPTIONS BE KEPT TO THE MINIMUM;

AND THAT SUCH REQUESTS ARE RECOMMENDED TO THE DEPARTMENT
ONLY ON THE BASIS OF FULL AND DETAILED JUSTIFICATION
APPROVED BY THE CHIEF OF MISSION. END SUMMARY.

1. POLICY GUIDELINES WITH REGARD TO THE USE OF FOREIGN
MILITARY SALES CREDITS AND GUARANTIES HAVE LONG REQUIRED
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THAT THEY BE USED ONLY TO FINANCE INVESTMENT REQUIREMENTS
AND MAJOR ATTRITION ITEMS.

2. "INVESTMENT REQUIREMENTS" ARE THOSE INITIAL ITEMS OF
EQUIPMENT, AND INITIAL PURCHASES OF SUPPLIES AND OF
SERVICES WHICH INCREASE THE RECIPIENT'S MILITARY FORCE
CAPABILITY, INCLUDING UNIT EQUIPMENT, WAR RESERVE EQUIP-
MENT AND AMMUNITION, REPLACEMENT OF OBSOLETE EQUIPMENT
BY IMPROVED TYPES, INITIAL SPARE PARTS PROGRAMMED FOR
DELIVERY CONCURRENT WITH RELATED MAJOR ITEMS, AND TRAINING

ASSOCIATED WITH THE INTRODUCTION OF A NEW OR IMPROVED CAPABILITY.

3. "MAJOR ATTRITION ITEMS" ARE THOSE WHICH REPLACE AN EXISTING TYPE OF MAJOR EQUIPMENT WHICH IS WORN OUT, DAMAGED OR LOST.

4. THE THRUST OF THIS POLICY IS THAT FMS FINANCING IS NOT NORMALLY APPROVED FOR PURCHASES OF TRAINING, SPARE PARTS, AMMUNITION, OTHER CONSUMABLES, OR EXPENDABLE EQUIPMENT. THE ONLY STANDARD EXCEPTION IS TO PERMIT FMS FINANCING FOR THE PURCHASE OF SUCH ITEMS AS TECHNICAL MANUALS AND INITIAL TRAINING IN THE OPERATION AND MAINTNEANCE OF DEFENSE EQUIPMENT, INITIAL (UP TO ONE YEAR) STOCKS OF SPARE PARTS, INITIAL AMMUNITION (UP TO ONE YEAR TRAINING AND/OR BASIC RESERVE STOCKS), AND OTHER CONSUMABLE OR EXPENDABLE EQUIPMENT LOGICALLY INCLUDED IN THE INITIAL PURCHASE OF A WEAPONS SYSTEM OR EQUIPMENT PACKAGE. THE PURPOSES OF THIS STANDARD EXCEPTION ARE TO ENSURE THAT THE PURCHASING GOVERNMENT OBTAINS THE CAPABILITY TO UTILIZE THE EQUIPMENT ORDERED AND TO PERMIT A SINGLE METHOD OF FINANCING ALL ITEMS INCLUDED IN A SINGLE MAJOR SALE; AT THE SAME TIME, THE PURCHASER SHOULD BE BROUGHT TO CONFIDENTIAL

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RECOGNIZE THE AMOUNT OF ASSOCIATED O AND M AND OTHER COSTS IT WILL BE ASSUMING IN ITS OWN DEFENSE BUDGET FOR FUTURE YEARS, IN ADDITION TO THE FMS INTEREST AND PRINCIPAL REPAYMENT FOR INITIAL PURCHASE.

5. THE REASONS FOR THIS BASIC POLICY INCLUDE:

A) PRESENTATIONS TO CONGRESS IN SUPPORT OF THE FMS FINANCING PROGRAM HAVE CONSISTENTLY EMPHASIZED THE NEEDS OF LDC'S FOR LONG TERM FINANCING OF EXPENSIVE MODERN WEAPONS SYSTEMS. THE ARMS EXPORT CONTROL ACT EXPRESSES THE PURPOSE OF ASSISTING "FRIENDLY FOREIGN COUNTRIES HAVING SUFFICIENT WEALTH TO MAINTAIN AND EQUIP THEIR OWN MILITARY FORCES, OR-TO ASSUME PROGRESSIVELY LARGER SHARES OF THE COSTS THEREOF, WITHOUT UNDUE BURDEN TO THEIR ECONOMIES," AND RECOGNIZES THAT, "BECAUSE OF THE GROWING COST AND COMPLEXITY OF DEFENSE EQUIPMENT, IT IS INCREASINGLY DIFFICULT FOR ANY COUNTRY, PARTICULARLY A DEVELOPING COUNTRY, TO FILL ALL OF ITS LEGITIMATE DEFENSE REQUIREMENTS FROM ITS OWN DESIGN AND PRODUCTION BASE."

B) USE OF FMS FINANCING TO SUPPORT CURRENT OPERATING EXPENSES OF FOREIGN MILITARY FORCES, INCLUDING PURCHASE OF SPARE PARTS, TRAINING AMMUNITION, AND OTHER CONSUMABLES AMOUNTS TO A FORM OF BUDGET SUPPORT, WHICH INVOLVES THE USG SUBSIDIZING THE MANAGEMENT OF FOREIGN MILITARY FORCES AND MAY DISGUISE THE TRUE COSTS OF MAINTAINING SUCH

FORCES. IN A WORST CASE, A FOREIGN GOVERNMENT MIGHT USE ITS FOREIGN EXCHANGE FREED BY SUCH USE OF FMS FINANCING TO PURCHASE MAJOR DEFENSE EQUIPMENT FROM THIRD COUNTRY SUPPLIERS, IN DIRECT CONTRAVENTION OF THE MUTUAL SECURITY GOALS OF THE FMS PROGRAM.

C) IT IS A BASIC FINANCIAL MANAGEMENT PRINCIPLE THAT LONG-TERM CREDITS SHOULD NOT BE EXTENDED TO COVER SHORT-TERM OBLIGATIONS. FMS REPAYMENT TERMS IN PRINCIPLE ARE CONFIDENTIAL

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LIMITED TO THE REASONABLE LIFE EXPECTANCY OF THE ARTICLES PURCHASED.

D) THE OBJECTIVE OF THE PROGRAM IS TO ENCOURAGE THE BUILDING OF CERTAIN FRIENDLY FOREIGN MILITARY INSTITUTIONS IN A MANNER WHICH ARE FUNDAMENTALLY SOUND AND WHICH WILL HELP FOREIGN GOVERNMENTS TO ACHIEVE SELF-DEFENSE CAPABILITY, RATHER THAN PERPETUATE DEPENDENCE ON THE USG.

E) PRUDENT MANAGEMENT OF FOREIGN MILITARY SALES FINANCING IS AN ESSENTIAL ELEMENT IN THE RESPONSIBILITY VESTED IN THE SECRETARY OF STATE FOR CONTINUOUS SUPERVISION AND GENERAL DIRECTION OF THE ENTIRE FMS PROGRAM, TO ENSURE THAT THE FOREIGN POLICY OF THE UNITED STATES IS BEST SERVED THEREBY.

6. A RECENT REVIEW OF USES OF FMS FINANCING HAS INDICATED THAT APPLICATION OF THE BASIC POLICY STATED ABOVE HAS BEEN UNEVEN, AND THERE HAVE BEEN A NUMBER OF EXCEPTIONS IN THE PAST WHICH HAVE APPARENTLY BEEN ERRONEOUSLY INTERPRETED IN THE FIELD AND BY RECIPIENT GOVERNMENTS AS ESTABLISHING PRECEDENTS FOR CONTINUING USE OF FMS FINANCING IN DEROGATION OF ESTABLISHED POLICY.

7. ON THE OTHER HAND, THE DEPARTMENT RECOGNIZES THAT SPECIAL CIRCUMSTANCES CAN ARISE WHICH MAY RECOMMEND EXCEPTIONAL APPROVAL FOR USE OF EXISTING FMS CREDITS FOR FINANCING CONSUMABLES, TRAINING, OR OTHER OPERATIONS AND MAINTENANCE COSTS. THE FOLLOWING IS A PARTIAL ILLUSTRATIVE LIST BASED ON RECENT CASES OF SUCH CIRCUMSTANCES WHICH MAY, RPT, MAY, IN COMBINATION WITH OTHER FACTORS FORM THE BASIS FOR JUSTIFYING AN EXCEPTION TO THE RULE:
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A) AN ABRUPT ADVERSE MILITARY OR SECURITY DEVELOPMENT.

B) AN ABRUPT ADVERSE ECONOMIC DEVELOPMENT OR THE IMPOSITION ON AN LDC OF A BURDEN WHICH WITHOUT RESORT TO

FMS FINANCING WOULD OTHERWISE SIMPLY BE SHIFTED TO US ECONOMIC CONCESSIONARY AID.

C) EXTRAORDINARY NEED FOR UNPROGRAMMED MAJOR OVERHAUL OF AIRCRAFT, SHIPS OR OTHER ESSENTIALLY SATISFACTORY MAJOR EQUIPMENT. PARTICULARLY WHEN SUCH OVERHAUL WOULD PRECLUDE OR DELAY PURCHASE OF NEW END ITEMS.

D) TO PROVIDE A TRANSITION FUNDING SOURCE FOR THOSE O AND M ITEMS PREVIOUSLY FINANCED UNDER GRANT MAP TO COUNTRIES RECENTLY (SOMETIMES SUDDENLY) CUT OFF FROM GRANT AID.

E) EXPECTATIONS OF RECIPIENT GOVERNMENTS BASED ON PAST US FAILURE TO EXPLAIN OR ENFORCE STANDING FMS FINANCING POLICIES.

8. OBVIOUSLY, SOME OF THE DIFFICULTIES IN ADHERING TO HARD AND FAST GUIDELINES IN THIS MATTER ARE CAUSED BY THE TIME DELAY BETWEEN THE USG APPROVAL OF AN FMS FINANCING PROGRAM AND THE ACTUAL RECIPIENT GOVERNMENT DECISIONS ON SPECIFIC PURCHASES. THE DEPARTMENT RECOGNIZES THAT ONCE PROGRAM LEVELS ARE APPROVED AND BENEFICIARIES BECOME AWARE OF THE DIMENSIONS OF THEIR "CREDIT LINES" THEY TEND TO REGARD THE POTENTIAL CREDITS AND GUARANTIES AS ASSETS WHICH MUST BE SPENT BEFORE A CERTAIN DEADLINE, LEST THEY LOSE THE MONEY. THUS, RECIPIENTS, AT TIMES HAVE SOUGHT TO DEVELOP A SPENDING PROGRAM TO THE MAXIMUM POTENTIAL EVEN THOUGH TIME AND INTERVENING CIRCUMSTANCES MAY HAVE DEMANDED MODIFICATIONS.

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9. ALL POSTS WHERE THERE ARE FMS FINANCING PROGRAMS SHOULD TAKE PROMPT STEPS TO ENSURE THAT THE HOST GOVERNMENT IS AWARE OF THE BASIC US POLICY ON THE USES TO WHICH FMS FINANCING MAY BE APPLIED, AND THAT ANY EXCEPTIONS TO THIS POLICY MUST BE FULLY JUSTIFIED AND WILL BE CONSIDERED IN WASHINGTON FOR APPROVAL ONLY ON A ONE-TIME CURRENT YEAR BASIS- IN THIS CONNECTION IT MAY BE HELPFUL TO POINT OUT THAT FMS PROGRAMS ARE PROPOSED BY THE PRESIDENT IN HIS ANNUAL BUDGET AND ARE APPROVED BY THE CONGRESS ON A YEARLY BASIS; THERE CAN BE NO COMMITMENTS MORE THAN ONE YEAR IN ADVANCE WITHOUT REVIEW AND APPROVAL AT THE HIGHEST LEVELS OF THE USG. THE FMS PROGRAM CANNOT BE REGARDED AS A RELIABLE SOURCE FOR FINANCING OF CURRENT OPERATING COSTS. RECIPIENT COUNTRIES MUST BEAR THE BURDEN OF MAINTAINING

MILITARY EQUIPMENT FROM THEIR OWN RESOURCES. COUNTRIES HAVING DIFFICULTY IN MEETING CURRENT OPERATING COSTS FROM THEIR OWN BUDGETS SHOULD BE DISCOURAGED FROM BUYING FURTHER EQUIPMENT, ESPECIALLY WEAPONS SYSTEMS, WHICH WILL

CAUSE UNREASONABLE DRAIN ON THEIR AVAILABLE RESOURCES.

10. EXCEPTIONS TO POLICY REQUIRE INTERAGENCY COORDINATION AND CLEARANCE PRIOR TO DECISION BY, OR UNDER THE AUTHORITY OF, THE UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE. REQUESTS FOR EXCEPTION ARE WEIGHED ON THE BASIS OF ALL RELEVANT FACTORS AND INFORMATION AVAILABLE TO WASHINGTON AGENCIES. WE ARE PREPARED TO CONSIDER EXCEPTIONS WHERE SPECIAL CIRCUMSTANCES RECOMMEND DEVIATION FROM STRICT ADHERENCE TO THE POLICY AS EXPLAINED IN THIS MESSAGE. BECAUSE OF PARTICULAR CIRCUMSTANCES WHICH OBTAIN IN THE ADMINISTRATION OF FMS FINANCING PROGRAMS IN LATIN AMERICA, WE ARE PREPARED TO BE ESPECIALLY FORTHCOMING ABOUT GRANTING PROPERLY DOCUMENTED REQUESTS FOR EXCEPTIONS IN THAT AREA. CONFIDENTIAL

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REQUESTS FROM THE FIELD SHOULD CONTAIN A COMPLETE AND DETAILED EXPLANATION OF THE SPECIAL CIRCUMSTANCES AND A REASONED AND THOROUGH JUSTIFICATION, TOGETHER WITH COMMENT ON WHETHER THE HOST GOVERNMENT HAS BEEN INFORMED OF FMS POLICY, AND ITS UNDERSTANDING THEREOF. THE JUSTIFICATION SHOULD BE ENDORSED BY THE CHIEF OF MISSION AND SUBMITTED TO THE DEPARTMENT OF STATE FOR ACTION, WITH THE DEPARTMENT OF DEFENSE AS INFORMATION ADDRESSEE. NO COMMITMENT, SPECIFIC OR TACIT, SHOULD BE MADE TO THE HOST GOVERNMENT PRIOR TO RECEIPT OF THE DEPARTMENT OF STATE REPLY.

11. OUR GOAL IS TO ADMINISTER THE FMS FINANCING PROGRAM WITH WISDOM RATHER THAN RIGIDITY, AND WITH PRUDENCE AND DISCRETION IN SUPPORT OF US FOREIGN POLICY OBJECTIVES.

12. WE WOULD WELCOME COMMENTS FROM THE FIELD ON THIS RESTATEMENT OF POLICY. VANCE

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